

FOWLERVILLE COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2007

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Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

September 7, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fowlerville Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fowlerville Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Fowlerville Community Schools as of June 30, 2007 and the respective changes in financial position, thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Fowlerville Community Schools

September 7, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2007 of Fowlerville Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi and xii and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fowlerville Community Schools' basic financial statements. The additional information on pages 30 through 49 is presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer, Costenizer & Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Fowlerville Community Schools' (FCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's general fund financial situation remained stable from the 2006 fiscal year to 2007.

Total District revenues exceeded \$31.7 million with spending around \$30.3 million; total District revenues exceeded expenditures by approximately \$1.4 million. The District continues to participate in the school bond loan fund, borrowing for debt repayment while keeping the debt millage at 8.34 mills.

The increase in the fund balance is primarily due to the volatile state funding for 06-07. The District restricted spending in November 2006 to essential items. When Governor Granholm and the Legislature made good the budgeted foundation allowance in late May 2007, it was too late for educational expenditures.

The student blended count for 2006-2007 was 3,163.

The District's general fund is funded primarily with a \$7,085 per pupil State of Michigan Foundation allowance. Also, in 2006-2007 we received \$23 per pupil in an equity payment. The general fund receives 84% of its revenue from State sources.

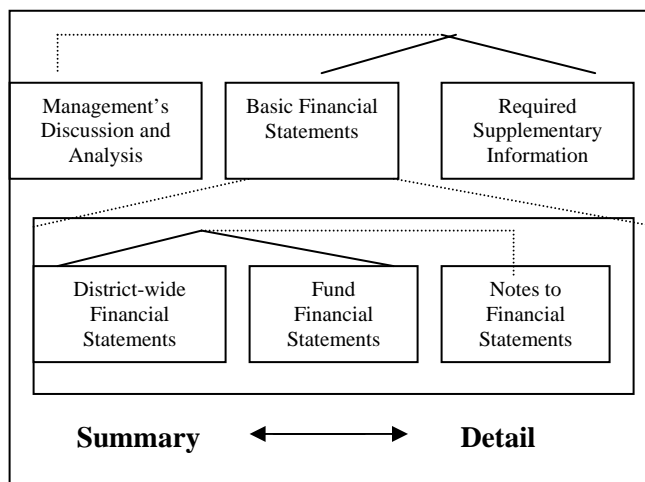
During the 2006-2007 fiscal year the District repaid \$4.0 million of principal from its long-term debt. The District's general fund balance increased \$421,827. At June 30, 2007, the fund balance of the general fund was \$1,957,722.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

Figure A-1
Organization of
Fowlerville Community Schools' Annual
Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<p style="text-align: center;">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p>			
Scope	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Fowlerville's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets (deficit) was less on June 30, 2007 than the year before, decreasing from (\$12,258,790) to (\$10,898,077). One of the major contributors to this is the District's participation in the school bond loan fund (SBLF) which allows the District's debt millage to remain at a lower level (8.34 mills) but requires borrowing from the SBLF to meet principal and interest payments. In 2006-2007 the District borrowed \$3,122,515 from this fund. Interest on the cumulative borrowings was \$453,701 for the year ended June 30, 2007. Once the District's total property valuation grows to sufficient levels, this money will be repaid.

Table A-3		
Fowlerville Community Schools' Net Assets		
	2007	2006
Current or other assets	\$ 18,646,512	\$ 41,189,656
Capital assets and other assets	75,804,234	55,565,918
Total assets	94,450,746	96,755,574
Long-term debt outstanding	90,050,596	91,151,108
Other liabilities	15,298,227	17,863,256
Total liabilities	105,348,823	109,014,364
Net assets (deficit):		
Invested in capital assets, net of related debt	(10,122,574)	(11,679,792)
Unrestricted	(775,503)	(578,998)
Total net assets (deficit)	\$ (10,898,077)	\$ (12,258,790)

Table A-4		
Changes in Fowlerville Community Schools' Net Assets		
	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 1,503,988	\$ 1,619,070
Federal and state categorical grants	984,982	1,004,175
General revenues:		
Property taxes	6,945,869	6,097,729
State aid - unrestricted	20,445,276	20,148,940
Other	1,791,746	2,065,513
Total revenues	31,671,861	30,935,427
Expenses:		
Instruction	14,605,194	15,520,981
Support services	8,341,128	8,420,978
Community services	619,379	637,432
Food services	1,047,777	1,075,774
Athletics	496,349	466,918
Interest on long-term debt	4,208,662	4,109,682
Unallocated depreciation	992,659	992,661
Total expenses	30,311,148	31,224,426
Increase (decrease) in net assets	\$ 1,360,713	\$ (288,999)

District Governmental Activities

The District's financial condition has become relatively stable considering Michigan's uncertain economy.

- In fiscal year 1999 - 2000, the student blended count was 3,103. In six years it has grown to 3,163 or an increase of 60 blended count students. Fowlerville Schools became a School of Choice district for the 2006-2007 school year, with 32 new students and retaining 21 students.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds:

Fund balance

General fund	\$ 1,957,722
Capital projects funds	\$ 5,958,932
All other funds	\$ 595,596

This is a combined fund balance of \$8,512,250 compared to \$28,415,587 in 2006. The 2007 fund balance decreased by \$19,903,337 mainly due to capital project expenditures.

General Fund and Budget Highlights

During the 2006-2007 fiscal year, the original District budget was amended to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined.

There was no pro-ration of the \$7,085 Foundation Allowance during the 2006-2007 school year.

The final amended budget showed an operating gain for 2006-2007 because of restricted spending.

Overall the difference between the final general fund amended budget and end of the year figures amounted to approximately 1%. We had a decrease in revenues from the final June 2007 Board adopted budget by \$210,213. Expenditures were \$288,885 less than the final approved budget. The decrease in revenue was due to limited spending in Title I and At Risk monies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-5 Fowlerville Community Schools' Capital Assets				
	2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 960,000	\$	\$ 960,000	\$ 960,000
Construction in progress	46,242,243		46,242,243	24,774,398
Land improvements	1,006,955	564,208	442,747	489,344
Buildings and additions	40,785,984	13,962,071	26,823,913	27,630,357
Machinery and equipment	2,911,023	2,379,473	531,550	754,733
Transportation equipment	1,989,888	1,685,258	304,630	421,828
Total	<u>\$ 93,896,093</u>	<u>\$ 18,591,010</u>	<u>\$ 75,305,083</u>	<u>\$ 55,030,660</u>

In June 2004, a \$49,350,000 bond issue was passed by the voters. In the summer of 2005, construction began on road ways and parking lots on South campus. Also, Fowlerville High School construction began in September 2005. In the summer of 2006, work began on the Smith building, the Junior High building, and athletic fields. Fowlerville High School will be completed in fall 2007.

The 2008 fiscal year budget anticipates on-going capital expenditures with the continuation of the District's bond construction plans.

Long-term Debt

At year end the District had over \$94.6 million in general obligation bonds and other long-term debt outstanding. This was a decrease of \$1.0 million from the amount outstanding at the end of fiscal 2006. The District repaid \$4.0 million in principal during fiscal 2007, but also borrowed \$3.0 million through the School Bond Loan Fund.

Table A-6 Fowlerville Community Schools Outstanding Long-Term Debt		
	2007	2006
General obligation debts (financed with property taxes)	\$ 81,272,732	\$ 85,343,001
School loan funds	11,622,781	8,046,565
Other	1,735,539	2,266,534
Total	<u>\$ 94,631,052</u>	<u>\$ 95,656,100</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2007-2008 State Aid for the Foundation allowance has not been set by Governor Granholm and the Legislature. The continued job loss and high unemployment in Michigan forecasts a cautious future for K-12 school funding.
- Two year contracts were negotiated and ratified with the Fowlerville Education Association (teachers) and the custodial bargaining unit.
- In 2007-2008, the District anticipates a decrease of at least 60 students in the September 2007 count. The District anticipates enrollment in 2007-2008 will decrease due to a severe downturn in residential construction plus high gas prices. The State's weak economy and fuel costs can have a great effect on District move-ins or students leaving because of their parent's job status.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Fowlerville Community Schools, 735 N. Grand, Fowlerville, MI 48836-0769.

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash	\$ 4,793,288
Cash - restricted for capital projects	6,160,632
Investments - restricted for capital projects	3,693,422
Receivables:	
Accounts receivable	82,022
Other governmental units	3,562,943
Taxes	3,325
Agency fund activities	19,288
Interest - restricted for capital projects	53,703
Inventories	47,593
Prepaid expenditures	<u>230,296</u>
TOTAL CURRENT ASSETS	<u>18,646,512</u>
NONCURRENT ASSETS:	
Deferred charges, net of amortization	499,151
Capital assets	93,896,093
Less accumulated depreciation	<u>(18,591,010)</u>
TOTAL NONCURRENT ASSETS	<u>75,804,234</u>
TOTAL ASSETS	<u><u>\$ 94,450,746</u></u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 2,505,748
Retainage payable	1,658,596
Accrued interest	740,563
Note payable	3,500,000
Accrued salaries and related items	2,179,452
Deferred revenue	133,412
Current portion of long-term obligations	4,255,214
Current portion of compensated absences and severance benefits	<u>325,242</u>

TOTAL CURRENT LIABILITIES

15,298,227

NONCURRENT LIABILITIES:

Noncurrent portion of long-term obligations	88,874,743
Compensated absences and severance benefits	<u>1,175,853</u>

TOTAL NONCURRENT LIABILITIES

90,050,596

TOTAL LIABILITIES

105,348,823

NET ASSETS (DEFICIT):

Invested in capital assets, net of related debt	(10,122,574)
Unrestricted	<u>(775,503)</u>

TOTAL NET DEFICIT

(10,898,077)

TOTAL LIABILITIES AND NET ASSETS (DEFICIT)

\$ 94,450,746

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 14,605,194	\$	\$ 467,277	\$ (14,137,917)
Support services	8,341,128		111,482	(8,229,646)
Community services	619,379	646,723		27,344
Food services	1,047,777	699,465	406,223	57,911
Athletics	496,349	157,800		(338,549)
Interest on long-term debt	4,208,662			(4,208,662)
Unallocated depreciation	992,659			(992,659)
Total governmental activities	<u>\$ 30,311,148</u>	<u>\$ 1,503,988</u>	<u>\$ 984,982</u>	<u>(27,822,178)</u>
General revenues:				
Property taxes, levied for general purposes				2,303,969
Property taxes, levied for debt service				4,641,900
Net investment earnings				1,196,064
State sources				20,445,276
Intermediate district and other revenue				592,409
Gain on sale of equipment				3,273
Total general revenues				<u>29,182,891</u>
CHANGE IN NET ASSETS				1,360,713
NET DEFICIT , beginning of year				<u>(12,258,790)</u>
NET DEFICIT , end of year				<u>\$ (10,898,077)</u>

FOWLERVILLE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 4,230,653	\$ 6,160,632	\$ 562,635	\$ 10,953,920
Investments		3,693,422		3,693,422
Receivables:				
Accounts receivable	73,951		8,071	82,022
Other governmental units	3,562,943			3,562,943
Due from student funds	19,288			19,288
Taxes	3,325			3,325
Interest		53,703		53,703
Inventories	15,231		32,362	47,593
Prepaid expenditures	230,296			230,296
TOTAL ASSETS	\$ 8,135,687	\$ 9,907,757	\$ 603,068	\$ 18,646,512

LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 214,262	\$ 2,290,229	1,257	\$ 2,505,748
Retainage payable		1,658,596		1,658,596
Accrued interest	107,932			107,932
State aid anticipation note	3,500,000			3,500,000
Accrued salaries and related items	2,179,452			2,179,452
Deferred revenue	176,319		6,215	182,534
TOTAL LIABILITIES	6,177,965	3,948,825	7,472	10,134,262

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for:				
Debt service	\$	\$	\$ 467,831	\$ 467,831
Inventories and prepaid expenditures	245,527		32,362	277,889
Total reserved	245,527		500,193	745,720
Designated for subsequent year expenditures	786,313	5,958,932		6,745,245
Unreserved and undesignated	925,882		95,403	1,021,285
TOTAL FUND BALANCES	1,957,722	5,958,932	595,596	8,512,250
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,135,687	\$ 9,907,757	\$ 603,068	\$ 18,646,512

Total governmental fund balances				\$ 8,512,250
Amounts reported for governmental activities in the statement of net assets are different because:				
Value of deferred charges for bond issuance costs			\$ 613,809	
Accumulated amortization			(114,658)	499,151
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			93,896,093	
Accumulated depreciation is			(18,591,010)	75,305,083
Long-term liabilities are not due and payable in the current period and are not reported in the funds				
Bonds payable				(93,129,957)
Compensated absences and severance benefits				(1,501,095)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid				
				(632,631)
Deferred revenue expected to be collected after September 1st.				
Taxes receivable at 6/30/07				3,325
Community services receivable at 6/30/07				45,797
Net assets (deficit) of governmental activities				\$ (10,898,077)

FOWLerville COMMUNITY SChOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

[illegible]

**FOWLerville COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances total governmental funds \$ (19,903,337)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. However, in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,212,564)
Capital outlay	21,488,654

In the Statement of Activities, only the gain on the sale of equipment is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the equipment sold. (1,667)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	632,203
Accrued interest payable end of the year	(632,631)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Proceeds of debt	(3,122,515)
Payments on debt	4,130,892
Long-term interest on school bond loan fund	(453,701)
Deferred amount on bond refunding	(7,049)
Amortization expense - issuance costs	(36,107)
Amortization premium	42,318

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year - governmental funds	(48,008)
Deferred revenue end of the year - governmental funds	49,122

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when due in the governmental funds:

Accrued compensated absences and accumulated severance benefit beginning of the year	1,936,198
Accrued compensated absences and accumulated severance benefit end of the year	(1,501,095)

Change in net assets of governmental activities	\$ 1,360,713
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**FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	<u>Private purpose fund</u>	<u>Agency</u>
ASSETS		
Cash	<u>\$ 128,420</u>	<u>\$ 367,851</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups	\$	\$ 348,563
Accounts payable - primary government	<u> </u>	<u>19,288</u>
Total liabilities		367,851
Net assets:		
Reserved for scholarships	<u>128,420</u>	<u> </u>
	<u>\$ 128,420</u>	<u>\$ 367,851</u>

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007

	<u>Private purpose fund</u>
ADDITIONS:	
Interest earnings	\$ 5,909
Donations	<u>9,214</u>
Total additions	15,123
DEDUCTIONS:	
Scholarships awarded	<u>500</u>
CHANGE IN NET ASSETS	14,623
NET ASSETS:	
Beginning of year	<u>113,797</u>
End of year	<u><u>\$ 128,420</u></u>

FOWLerville COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fowlerville Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting entity

The Fowlerville Community Schools (the "District") is governed by the Fowlerville Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *capital project fund* accounts for the revenue and expenditures that are related to the net proceeds from the issuance of the general obligation bonds that are going to be used to erect, furnish and equip additions to and remodel, re-equip and refurbish school district buildings, acquire and install educational technology improvements, construct and equip a new maintenance building, and develop and improve sites, playgrounds, and athletic fields and facilities.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2004 capital projects bond activity since inception of the fund through the current fiscal year:

	<u>2004 Bond</u>
Revenues and other financing sources	<u>\$ 52,294,177</u>
Expenditures	<u>\$ 46,335,245</u>

The above revenue amount includes net bond proceeds of \$49,185,778.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

For the year ended June 30, 2007, approximately \$385,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* and No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

1. Cash and equivalents include amounts in demand deposits and certificates of deposit. (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	8.3400

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District’s policies generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net Asset Reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$10,378,564 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,244,217 has been included in the calculation of unrestricted net assets.

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The Deputy Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The District does not consider these amendments to be significant.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2007, the District had the following investments:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
U.S. Government Agencies	<u>\$ 3,693,422</u>	<u>0.1214</u>	AAA	<u>100%</u>

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, the District did not have investments in commercial paper and corporate bonds.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. 100% of the District's investments are in Fixed Income Government Securities.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$11,305,508 of the District's bank balance of \$11,505,508 was exposed to custodial credit risk because it was uninsured and uncollateralized. The bank balance includes approximately \$9.6 million of certificates of deposits and savings accounts. The carrying amount is \$10,953,920.

Fiduciary fund balances are not included in the above balances. As of June 30, 2007, \$261,596 of the Fiduciary fund's bank balance of \$496,271 was exposed to custodial credit risk because it was uninsured and uncollateralized. This carrying amount is \$496,271.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 960,000	\$	\$	\$ 960,000
Construction in progress	24,774,398	21,467,845		46,242,243
Total assets not being depreciated	25,734,398	21,467,845		47,202,243
Other capital assets:				
Land improvements	1,006,955			1,006,955
Buildings and additions	40,785,984			40,785,984
Machinery and equipment	2,919,599	6,424	15,000	2,911,023
Transportation equipment	1,975,503	14,385		1,989,888
Subtotal	46,688,041	20,809	15,000	46,693,850
Accumulated depreciation:				
Land improvements	517,611	46,597		564,208
Buildings and additions	13,155,627	806,444		13,962,071
Machinery and equipment	2,164,866	227,940	13,333	2,379,473
Transportation equipment	1,553,675	131,583		1,685,258
Total accumulated depreciation	17,391,779	1,212,564	13,333	18,591,010
Net capital assets being depreciated	29,296,262	(1,191,755)	1,667	28,102,840
Net governmental capital assets	\$ 55,030,660	\$ 20,276,090	\$ 1,667	\$ 75,305,083

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation expense was charged to programs of the District as follows:

Governmental activities:

Athletics	\$ 21,205
Food service	15,200
Support services	183,500
Unallocated	<u>992,659</u>

Total governmental activities	<u><u>\$ 1,212,564</u></u>
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NOTE 5 - RECEIVABLES

Receivables at June 30, 2007 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 3,481,189
Federal revenue	33,346
Other	<u>48,408</u>
	<u><u>\$ 3,562,943</u></u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2007, the District has a note payable outstanding of \$3,500,000. The note has an interest rate of 3.68% and matures August 20, 2007. The note is secured by the full faith and credit of the District as well as pledged state aid. Subsequent to year-end, the District set aside an additional amount to pay off the note principal and related interest expense. The District has approved a note payable of \$2,600,000 for the fiscal year ending June 30, 2008.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
\$ 3,200,000	\$ 3,500,000	\$ 3,200,000	\$ 3,500,000

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2007:

	Accumulated compensated absences	Accumulated severance benefits	Bonds and other debt	Total
Balance, July 1, 2006	\$ 269,484	\$ 1,666,714	\$ 93,719,902	\$ 95,656,100
Additions			3,576,216	3,576,216
Deletions	(36,993)	(398,110)	(4,166,161)	(4,601,264)
Balance, June 30, 2007	232,491	1,268,604	93,129,957	94,631,052
Less current portion	23,822	301,420	4,255,214	4,580,456
Total due after one year	\$ 208,669	\$ 967,184	\$ 88,874,743	\$ 90,050,596

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds payable at June 30, 2007 is comprised of the following issues:

1995 serial bonds due in annual installments of \$90,000 to \$95,000 through May 1, 2010 with interest from 5.10% to 5.90%	\$ 280,000
1999 refunding serial bonds due in annual installments of \$795,000 to \$910,000 through May 1, 2026 with interest from 3.10% to 4.75%	16,325,000
2001 refunding serial bonds due in annual installments of \$485,000 to \$500,000 through May 1, 2009 with interest from 4.00% to 4.13%	985,000
2003 refunding serial bonds due in annual installments of \$340,000 to \$425,000 through May 1, 2020 with interest from 2.00% to 4.35%	4,950,000
2003 refunding serial bonds due in annual installments of \$1,426,000 to \$1,728,000 through May 1, 2014 with interest at 3.318%	11,010,000
2004 serial bonds due in annual installments of \$950,000 to \$2,750,000 through May 1, 2034 with interest from 2.25% to 5.00%	47,225,000
Plus: premium on bond refunding	589,364
Less: deferred loss on bond refunding	<u>(91,632)</u>
Total general obligation debt	81,272,732
Limited obligation (Durant) bonds due in annual installments of \$12,746 to \$80,490 through May 2013 with an interest rate of 4.76%. Certain State Aid payments have been pledged as security.	<u>135,229</u>
Total bonded debt	81,407,961

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

Borrowings from the State of Michigan under the School Bond Loan and School Loan Revolving Funds Programs, including interest. Interest at June 30, 2007 was 4.75% for the School Bond Loan Fund and 4.82% for the School Loan Revolving Funds.	\$ 11,622,781
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Installment notes payable due in an annual installment of \$51,292 through April 1, 2008 with an interest rate of 3.6951%	51,292
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Installment notes payable due in an annual installment of \$47,923 through April 21, 2008 with an interest rate of 3.22%	47,923
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Total bonds and other debt	93,129,957
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Obligation under contract for compensated absences	232,491
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Obligation under contract for severance benefits	708,604
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Obligation under contract for voluntary separation plan	560,000
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Total general long-term debt	\$ 94,631,052
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The District had entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of \$60,000. This amount is paid over three equal payments of \$20,000 annually. There are currently fourteen employees entitled to future payments. The liability has been recorded at the face amount as the discounted present value approximates face amount of the liability.

The Durant bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2007, \$20,830,000 of bonds outstanding are considered defeased.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize debt outstanding as of June 30, 2007, including interest payments of \$49,173,030 are as follows:

Year ending June 30,	Principal	Interest	Amounts payable
2008	\$ 4,255,214	\$ 3,636,131	\$ 7,891,345
2009	4,314,747	3,491,772	7,806,519
2010	3,963,352	3,336,156	7,299,508
2011	3,953,988	3,185,475	7,139,463
2012	4,045,653	3,035,336	7,080,989
2013 - 2017	16,161,490	12,981,356	29,142,846
2018 - 2022	13,535,000	9,631,464	23,166,464
2023 - 2027	13,405,000	6,287,840	19,692,840
2028 - 2032	12,000,000	3,181,250	15,181,250
2033 - 2034	5,375,000	406,250	5,781,250
	81,009,444	49,173,030	130,182,474
Premium on bond refunding	589,364		589,364
Deferred loss on bond refunding	(91,632)		(91,632)
Due to school bond loan fund	11,622,781		11,622,781
Accumulated compensated absences	232,491		232,491
Accumulated severance benefits	1,268,604		1,268,604
	<u>\$ 94,631,052</u>	<u>\$ 49,173,030</u>	<u>\$ 143,804,082</u>

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 were zero.

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2006 was 16.34% of payroll and increased to 17.74% effective October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2007, 2006 and 2005 were \$2,437,000, \$2,271,000 and \$2,049,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE 11 - TRANSFERS

The general fund transferred \$317,344 to the athletics fund, \$4,150 to the food service fund and \$111,710 to the debt service fund. The transfer to the athletic fund and the food service fund were to subsidize operations. The transfer to the debt service fund was to pay the debt service principal and interest payments as they become due.

NOTE 12 - OPERATING LEASES

The District leases copiers under an operating lease agreement expiring June 30, 2009. Minimum rental commitments for all non-cancelable operating leases are as follows:

<u>Year ending</u>	
2008	\$ 34,930
2009	<u>34,930</u>
	<u><u>\$ 69,860</u></u>

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The District has approximately \$6,000,000 committed to complete its capital projects building program.

REQUIRED SUPPLEMENTARY INFORMATION

FOWLerville COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Original budget	Final budget	Actual	Variance with final budget - positive (negative)
REVENUES:				
Local	\$ 3,179,505	\$ 3,275,431	\$ 3,222,622	\$ (52,809)
State sources	20,398,285	20,738,446	20,635,034	(103,412)
Federal sources	385,137	442,994	389,001	(53,993)
Incoming transfers and other transactions	370,630	489,967	489,968	1
Total revenues	24,333,557	24,946,838	24,736,625	(210,213)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	11,975,259	11,958,615	11,893,755	64,860
Added needs	3,010,639	3,150,508	3,070,967	79,541
Adult and community education	179,469			
Total instruction	15,165,367	15,109,123	14,964,722	144,401
Support services:				
Pupil	952,413	904,421	883,937	20,484
Instructional staff	694,866	702,542	679,774	22,768
General administration	476,967	479,455	468,590	10,865
School administration	1,480,170	1,456,386	1,450,592	5,794
EXPENDITURES (Concluded):				
Support services (Concluded):				
Business	\$ 438,565	\$ 462,401	\$ 458,883	\$ 3,518
Operation and maintenance	2,419,249	2,376,862	2,347,095	29,767
Transportation	1,433,305	1,409,024	1,399,947	9,077
Central	544,422	524,454	510,962	13,492
Total support services	8,439,957	8,315,545	8,199,780	115,765
Community services	675,160	648,098	619,379	28,719
Outgoing transfers and other transactions	102,653	102,653	102,653	
Total expenditures	24,383,137	24,175,419	23,886,534	288,885
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(49,580)	771,419	850,091	78,672
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of equipment			4,940	4,940
Operating transfers out	(410,938)	(436,211)	(433,204)	3,007
Total other financing sources(uses)	(410,938)	(436,211)	(428,264)	7,947
NET CHANGE IN FUND BALANCE	\$ (460,518)	\$ 335,208	421,827	\$ 86,619
FUND BALANCE:				
Beginning of year			1,535,895	
End of year			\$ 1,957,722	

ADDITIONAL INFORMATION

**FOWLERVILLE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2007**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash	\$ 94,804	\$ 467,831	\$ 562,635
Receivables:			
Accounts receivable	8,071		8,071
Inventories	<u>32,362</u>		<u>32,362</u>
TOTAL ASSETS	<u><u>\$ 135,237</u></u>	<u><u>\$ 467,831</u></u>	<u><u>\$ 603,068</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 1,257	\$	\$ 1,257
Deferred revenue	<u>6,215</u>		<u>6,215</u>
TOTAL LIABILITIES	7,472		7,472
FUND BALANCES	<u>127,765</u>	<u>467,831</u>	<u>595,596</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 135,237</u></u>	<u><u>\$ 467,831</u></u>	<u><u>\$ 603,068</u></u>

**FOWLERVILLE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
REVENUES:			
Local sources:			
Property taxes	\$	\$ 4,641,900	\$ 4,641,900
Food sales and athletic admissions	857,265		857,265
Investment income	6,465	48,286	54,751
Total local sources	863,730	4,690,186	5,553,916
State sources	63,516		63,516
Federal sources	342,707		342,707
Total revenues	1,269,953	4,690,186	5,960,139
EXPENDITURES:			
Athletics	475,144		475,144
Food service	1,032,577		1,032,577
Debt service:			
Principal retirement		4,035,000	4,035,000
Interest and fiscal charges		3,783,041	3,783,041
Total expenditures	1,507,721	7,818,041	9,325,762
DEFICIENCY OF REVENUES OVER EXPENDITURES	(237,768)	(3,127,855)	(3,365,623)
OTHER FINANCING SOURCES:			
Proceeds from school bond loan fund and bonds		3,122,515	3,122,515
Operating transfers in	321,494	111,710	433,204
Total other financing sources	321,494	3,234,225	3,555,719
NET CHANGE IN FUND BALANCES	83,726	106,370	190,096
FUND BALANCES:			
Beginning of year	44,039	361,461	405,500
End of year	\$ 127,765	\$ 467,831	\$ 595,596

**FOWLERVILLE COMMUNITY SCHOOLS
SPECIAL REVENUE FUND
BALANCE SHEET
SCHOOL LUNCH FUND
JUNE 30, 2007
(with comparative totals for June 30, 2006)**

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 94,804	\$ 26,821
Receivables:		
Accounts receivable	8,071	7,682
Inventory - food service	32,362	16,148
Prepaid expenditures	<u>117</u>	<u>117</u>
	<u><u>\$ 135,237</u></u>	<u><u>\$ 50,768</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 1,257	\$
Deferred revenue	<u>6,215</u>	<u>6,729</u>
Total liabilities	7,472	6,729
Fund balance	<u>127,765</u>	<u>44,039</u>
Total liabilities and fund balance	<u><u>\$ 135,237</u></u>	<u><u>\$ 50,768</u></u>

FOWLERVILLE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	School lunch fund	Athletics fund	Total	
			2007	2006
REVENUES:				
Sale of lunches and milk	\$ 699,465	\$	\$ 699,465	\$ 753,389
Federal aid	342,707		342,707	288,031
State aid	63,516		63,516	56,086
Interest and miscellaneous	6,465		6,465	2,767
Athletic events		157,800	157,800	183,192
Total revenues	1,112,153	157,800	1,269,953	1,283,465
EXPENDITURES:				
Salaries and wages	353,296	275,424	628,720	589,258
Employee benefits	171,444	92,859	264,303	285,420
Supplies and other expenses	59,993	106,861	166,854	177,567
Food costs	434,811		434,811	443,658
Capital outlay	4,622		4,622	883
Indirect costs	8,411		8,411	8,001
Total expenditures	1,032,577	475,144	1,507,721	1,504,787
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	79,576	(317,344)	(237,768)	(221,322)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	4,150	317,344	321,494	265,361
NET CHANGE IN FUND BALANCES	83,726		83,726	44,039
FUND BALANCES, beginning of year	44,039		44,039	
FUND BALANCES, end of year	\$ 127,765	\$	\$ 127,765	\$ 44,039

FOWLerville COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007
(with comparative totals for June 30, 2006)

	Debt service funds						Totals	
	1995	1996	1999	2001	2003	2003 SBLF	2007	2006
ASSETS								
Cash	\$ 16	\$ 47,509	\$ 34,951	\$ 72,032	\$ 37,999	\$ 118,967	\$ 156,357	\$ 467,831
								\$ 361,461
FUND BALANCES								
Fund balances, reserved for debt service	\$ 16	\$ 47,509	\$ 34,951	\$ 72,032	\$ 37,999	\$ 118,967	\$ 156,357	\$ 467,831
								\$ 361,461

FOWLERVILLE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	Debt service funds						Totals		
	1995	1996	1999	2001	2003	2003 SBLF	2004	2007	2006
REVENUES:									
Local sources:									
Current taxes	\$	\$ 509,171	\$ 375,220	\$ 428,974	\$ 407,042	\$ 1,265,870	\$ 1,655,623	\$ 4,641,900	\$ 4,129,333
Interest on investments	2	5,215	3,864	4,993	4,168	13,105	16,939	48,286	42,315
	2	514,386	379,084	433,967	411,210	1,278,975	1,672,562	4,690,186	4,171,648
State sources									16,083
Total revenues	2	514,386	379,084	433,967	411,210	1,278,975	1,672,562	4,690,186	4,187,731
EXPENDITURES:									
Redemption of bonds	90,000	625,000	95,000	510,000	410,000	1,380,000	925,000	4,035,000	3,903,086
Interest on bonds	21,285	40,625	747,868	60,656	198,620	411,100	2,299,661	3,779,815	3,923,660
Other debt retirement expenses	425	575	478	436	507	310	495	3,226	3,689
Total expenditures	111,710	666,200	843,346	571,092	609,127	1,791,410	3,225,156	7,818,041	7,830,435
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(111,708)	(151,814)	(464,262)	(137,125)	(197,917)	(512,435)	(1,552,594)	(3,127,855)	(3,642,704)
OTHER FINANCING SOURCES (USES):									
Proceeds from school bond loan fund		170,259	469,100	174,640	202,034	528,128	1,578,354	3,122,515	3,116,488
Operating transfers	111,710							111,710	111,385
Total other financing sources	111,710	170,259	469,100	174,640	202,034	528,128	1,578,354	3,234,225	3,227,873
NET CHANGE IN FUND BALANCES	2	18,445	4,838	37,515	4,117	15,693	25,760	106,370	(414,831)
FUND BALANCES , beginning of year	14	29,064	30,113	34,517	33,882	103,274	130,597	361,461	776,292
FUND BALANCES , end of year	\$ 16	\$ 47,509	\$ 34,951	\$ 72,032	\$ 37,999	\$ 118,967	\$ 156,357	\$ 467,831	\$ 361,461

FOWLERVILLE COMMUNITY SCHOOLS
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007
(with comparative totals for June 30, 2006)

	Private purpose	Agency funds	Totals	
			2007	2006
ASSETS				
Cash	\$ 128,420	\$ 367,851	\$ 496,271	\$ 509,483
Interest receivable				2,910
Total assets	<u>\$ 128,420</u>	<u>\$ 367,851</u>	<u>\$ 496,271</u>	<u>\$ 512,393</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to student groups	\$	\$ 348,563	\$ 348,563	\$ 388,457
Due to other funds		19,288	19,288	10,139
Total liabilities		367,851	367,851	398,596
Fund balances:				
Reserved for scholarships	128,420		128,420	113,797
	<u>\$ 128,420</u>	<u>\$ 367,851</u>	<u>\$ 496,271</u>	<u>\$ 512,393</u>

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2007

	Balance 7/1/2006	Additions	Deductions	Balance 6/30/2007
Allshouse Scholarship	\$ 24,016	\$ 2,103	\$ (1,000)	\$ 25,119
Athletic Baseball	2,545	11,877	(12,992)	1,430
Athletic Baseball equipment		2,134	(2,113)	21
Athletic Boys Basketball	127	200	(326)	1
Athletic Cross Country	124	1,030	(133)	1,021
Athletic Girls Basketball	773			773
 Athletic - soccer internal	 708	 679	 (513)	 874
Athletic - softball internal	1			1
Athletic resale	7,699	3,270	(4,120)	6,849
Beagle Scholarship	672	17	(660)	29
 Board Scholarship	 2,237		 (500)	 1,737
Bus Employees		560	(643)	(83)
Cash over and under	211	45		256
Cheerleaders	363	5,717	(5,922)	158
Class of 2005	2,660			2,660
 Class of 2006	 (2)			 (2)
Class of 2007	9,805	3,774	(13,579)	
Class of 2008	9,292	11,827	(10,958)	10,161
Class of 2009	8,868	15,379	(6,657)	17,590
Class of 2010		434		434
Commander	17,086	20,585	(25,084)	12,587
 Dare	 22,379	 6,608	 (24,380)	 4,607
Drug Dog	192	500	(274)	418
Equipment sale	9,032			9,032
FFA	1,098			1,098

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2007

	Balance 7/1/2006	Additions	Deductions	Balance 6/30/2007
FIVA	\$ 73	\$	\$	\$ 73
Fowlerville MAFHK	638		(100)	538
Rose Hamlin Scholarship	500		(1,000)	(500)
Michael Hanks Scholarship	1,000	1,000	(1,000)	1,000
Harmon Scholarship	500	500	(500)	500
High School Activity	95,207	48,554	(45,983)	97,778
High School Band	5,253	11,008	(8,602)	7,659
High School PSAT		1,050	(840)	210
Student Council (HS)	229	2,285	(1,207)	1,307
Jr. High Activity	12,470	21,457	(18,080)	15,847
Jr. High Band	277		(106)	171
Jr. High Choir	2,010	2,111	(3,181)	940
Jr. High Resource	3,683	3,678	(5,543)	1,818
Jr. High Science	897	1,191	(1,661)	427
Jr. High Student Council/Govt	2,584	832	(3,025)	391
Jr. High Talent Show	1,880	593	(1,111)	1,362
Jr. High Track Board	559	253	(304)	508
Jr. High Yearbook	7,648	4,413	(5,941)	6,120
Kovacs Donation	1,529			1,529
Kreeger Activity	14,182	18,385	(20,305)	12,262
Kreeger Book Fair	8,425	11,070	(13,418)	6,077
Kreeger Counseling	1,252	230	(224)	1,258
Kreeger Family Scholarship	110	1,038		1,148
Kreeger Instruction	419			419
Kreeger KTPN	27,381	55,165	(64,440)	18,106
Little Glad Center	2,752	15,672	(16,706)	1,718

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2007

	Balance 7/1/2006	Additions	Deductions	Balance 6/30/2007
Lift A Thon	\$ 1,181	\$ 15,219	\$ (9,574)	\$ 6,826
Middle School Activity	8,592	64,476	(61,284)	11,784
Middle School Activity	4,519	1,845	(6,364)	
MS Student Government	1,555	4,863	(5,122)	1,296
Middle School PTG	17,495	24,457	(28,458)	13,494
 Middle School Yearbook	 2,292	 6,212	 (5,797)	 2,707
National Honor Society	1,233	1,245	(1,099)	1,379
Photo Account	337		(337)	
Rec-Community Ed	1,574	5,294	(3,913)	2,955
Rec-Pepsi	824	159	(796)	187
 Remembrance Fund	 2,701	 4,534	 (4,904)	 2,331
Smith Elementary Activity	8,604	9,660	(10,250)	8,014
Smith PTC	20,832	39,465	(41,608)	18,689
Spanish Club	101	2,321	(2,415)	7
Tesch Scholarship		2,675		2,675
 Unallocated interest (checking)	 831	 1,419		 2,250
Unallocated interest (CD)	2,910		(2,910)	
VanGorder Scholarship	1,000		(3,000)	(2,000)
Wrestling Club	532			532
	<u>\$ 388,457</u>	<u>\$ 471,068</u>	<u>\$ (510,962)</u>	<u>\$ 348,563</u>

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1995 DEBT
YEAR ENDED JUNE 30, 2007**

Bond issue for the purpose of renovating the School District Building to help conserve energy costs.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 8,123	\$ 8,123	\$ 90,000	2008	\$ 106,246
5,557	5,557	95,000	2009	106,114
2,803	2,803	95,000	2010	100,606
<u>\$ 16,483</u>	<u>\$ 16,483</u>	<u>\$ 280,000</u>		<u>\$ 312,966</u>

The above bonds have interest rates from 5.10% to 5.90%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1999 DEBT
YEAR ENDED JUNE 30, 2007

Bond issue dated March 4, 1999 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated November 21, 1996 which are due and payable in the years 1997 through 2026.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 372,010	\$ 372,010	\$ 795,000	2008	\$ 1,539,020
355,911	355,911	890,000	2009	1,601,822
337,444	337,444	910,000	2010	1,584,888
317,879	317,879	905,000	2011	1,540,758
297,969	297,969	900,000	2012	1,495,938
277,719	277,719	895,000	2013	1,450,438
257,581	257,581	885,000	2014	1,400,162
237,669	237,669	880,000	2015	1,355,338
217,869	217,869	875,000	2016	1,310,738
198,181	198,181	865,000	2017	1,261,362
178,719	178,719	860,000	2018	1,217,438
158,294	158,294	855,000	2019	1,171,588
137,988	137,988	850,000	2020	1,125,976
117,800	117,800	845,000	2021	1,080,600
97,731	97,731	835,000	2022	1,030,462
77,900	77,900	830,000	2023	985,800
58,188	58,188	825,000	2024	941,376
38,594	38,594	815,000	2025	892,188
19,238	19,238	810,000	2026	848,476
<u>\$ 3,754,684</u>	<u>\$ 3,754,684</u>	<u>\$ 16,325,000</u>		<u>\$ 23,834,368</u>

The above bonds have interest rates from 3.10% to 4.75%

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2001 DEBT
YEAR ENDED JUNE 30, 2007

Bond issue dated June 28, 2001 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated May 21, 1992 which are due and payable in the years 1993 through 2009.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 20,128	\$ 20,128	\$ 500,000	2008	\$ 540,256
10,003	10,003	485,000	2009	505,006
<u>\$ 30,131</u>	<u>\$ 30,131</u>	<u>\$ 985,000</u>		<u>\$ 1,045,262</u>

The above bonds have interest rates from 4.00% to 4.13%

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2003 DEBT
YEAR ENDED JUNE 30, 2007

Bond issue dated March 14, 2003 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated August 29, 1991 which were refunded in 1993 which are due and payable in the years 2004 through 2020.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 94,698	\$ 94,698	\$ 395,000	2008	\$ 584,396
89,266	89,266	385,000	2009	563,532
83,251	83,251	425,000	2010	591,502
75,813	75,813	415,000	2011	566,626
68,032	68,032	410,000	2012	546,064
59,832	59,832	400,000	2013	519,664
51,832	51,832	385,000	2014	488,664
44,132	44,132	375,000	2015	463,264
36,632	36,632	365,000	2016	438,264
29,332	29,332	355,000	2017	413,664
22,054	22,054	345,000	2018	389,108
14,939	14,939	355,000	2019	384,878
7,394	7,394	340,000	2020	354,788
<u>\$ 677,207</u>	<u>\$ 677,207</u>	<u>\$ 4,950,000</u>		<u>\$ 6,304,414</u>

The above bonds have interest rates from 2.00% to 4.35%.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2003 SBLF REFUNDING DEBT
YEAR ENDED JUNE 30, 2007**

The 2003 School Bond Loan Refunding Bond dated September 30, 2003 for the purpose of refunding a portion of the School District's School Bond Loan Fund.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
November 1,	May 1,		June 30,	Amount
\$ 182,656	\$ 182,656	\$ 1,426,000	2008	\$ 1,791,312
158,999	158,999	1,472,000	2009	1,789,998
134,578	134,578	1,520,000	2010	1,789,156
109,361	109,361	1,570,000	2011	1,788,722
83,315	83,315	1,621,000	2012	1,787,630
56,423	56,423	1,673,000	2013	1,785,846
28,668	28,668	1,728,000	2014	1,785,336
<u>\$ 754,000</u>	<u>\$ 754,000</u>	<u>\$ 11,010,000</u>		<u>\$ 12,518,000</u>

The above bonds have an interest rate of 3.318%.

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2004 DEBT
YEAR ENDED JUNE 30, 2007

Bond issue dated June 14, 2004 for the purpose of erecting, furnishing and equipping additions to and remodeling, re-equipping and refurbishing school district buildings, acquiring and installing educational technology improvements, constructing and equipping a new maintenance building, and developing and improving sites, playgrounds, and athletic fields and facilities dated August 17, 2004 which are due and payable in the years 2006 through 2034.

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
May 1,	November 1,		June 30,	Amount
\$ 1,138,731	\$ 1,138,732	\$ 950,000	2008	\$ 3,227,463
1,124,481	1,124,482	975,000	2009	3,223,963
1,108,637	1,108,637	1,000,000	2010	3,217,274
1,088,637	1,088,637	1,050,000	2011	3,227,274
1,067,638	1,067,637	1,100,000	2012	3,235,275
1,047,563	1,047,562	1,150,000	2013	3,245,125
1,025,713	1,025,712	1,200,000	2014	3,251,425
1,002,313	1,002,312	1,275,000	2015	3,279,625
970,438	970,437	1,350,000	2016	3,290,875
935,000	935,000	1,425,000	2017	3,295,000
897,594	897,594	1,500,000	2018	3,295,188
858,219	858,219	1,575,000	2019	3,291,438
816,875	816,875	1,650,000	2020	3,283,750
775,625	775,625	1,725,000	2021	3,276,250
732,500	732,500	1,800,000	2022	3,265,000
687,500	687,500	1,875,000	2023	3,250,000
640,625	640,625	1,950,000	2024	3,231,250
591,875	591,875	2,025,000	2025	3,208,750
541,250	541,250	2,100,000	2026	3,182,500
488,750	488,750	2,175,000	2027	3,152,500
434,375	434,375	2,250,000	2028	3,118,750
378,125	378,125	2,325,000	2029	3,081,250
320,000	320,000	2,400,000	2030	3,040,000
260,000	260,000	2,475,000	2031	2,995,000
198,125	198,125	2,550,000	2032	2,946,250
134,375	134,375	2,625,000	2033	2,893,750
68,750	68,750	2,750,000	2034	2,887,500
<u>\$ 19,333,714</u>	<u>\$ 19,333,711</u>	<u>\$ 47,225,000</u>		<u>\$ 85,892,425</u>

The above bonds have interest rates from 2.25% to 5.00%

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1998 DURANT
YEAR ENDED JUNE 30, 2007

\$229,022 Durant Bond - issued on November 24, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
12,746	3,337	2009	\$ 16,083
13,352	2,730	2010	16,082
13,988	2,095	2011	16,083
14,653	1,429	2012	16,082
80,490	27,566	2013	108,056
<u>\$ 135,229</u>	<u>\$ 37,157</u>		<u>\$ 172,386</u>

This bond is not subject to redemption prior to maturity by the School District and the School District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The interest rates, payable on this bond, is 4.76%, may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN AND SCHOOL LOAN REVOLVING FUNDS
YEAR ENDED JUNE 30, 2007

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
1996	\$ 1,561,544	\$ 164,664	\$ 1,726,208
1997	1,316,776	111,431	1,428,207
1998	2,225,414	209,835	2,435,249
1999	930,028	318,987	1,249,015
2000	1,692,500	385,914	2,078,414
2001	1,679,527	475,004	2,154,531
2002	1,426,547	488,901	1,915,448
2003	1,009,418	455,201	1,464,619
2004 refinance payment	(11,806,245)	(2,274,395)	(14,080,640)
2004	1,453,524	123,819	1,577,343
2005	2,650,529	81,300	2,731,829
2006	3,116,488	249,854	3,366,342
2007	3,122,515	453,701	3,576,216
Totals June 30, 2007	<u>\$ 10,378,565</u>	<u>\$ 1,244,216</u>	<u>\$ 11,622,781</u>

Balance at June 30, 2007

School Bond Loan Fund	4.75%	\$ 5,102,820
School Loan Revolving Fund	4.82341%	<u>6,519,961</u>
		<u>\$ 11,622,781</u>

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2007**

\$238,824 installment notes payable dated April 1, 2003 for bus purchase.

Principal due April 1,	Interest due April 1,	Debt service requirement for fiscal year	
		June 30,	Amount
<u>\$ 51,292</u>	<u>\$ 1,895</u>	2008	<u>\$ 53,187</u>

The above notes have an interest rate of 3.6951%.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2007**

\$184,230 installment notes payable dated July 22, 2004 for bus purchase.

Principal due April 21,	Interest due April 21,	Debt service requirement	
		June 30,	Amount
<u>\$ 47,923</u>	<u>\$ 1,543</u>	2008	<u>\$ 49,466</u>

The above notes have an interest rate of 3.22%

FOWLERVILLE COMMUNITY SCHOOLS

**ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133**

YEAR ENDED JUNE 30, 2007

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Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
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Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

September 7, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fowlerville Community Schools as of and for the year ended June 30, 2007, which collectively comprise Fowlerville Community Schools' basic financial statements and have issued our report thereon dated September 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fowlerville Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fowlerville Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fowlerville Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

September 7, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fowlerville Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Fowlerville Community Schools in a separate letter dated September 7, 2007.

This report is intended solely for the information and use of management, Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



Lamonte T. Lator
Bruce J. Dunn
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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

September 7, 2007

Compliance

We have audited the compliance of Fowlerville Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Fowlerville Community Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Fowlerville Community Schools' management. Our responsibility is to express an opinion on Fowlerville Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fowlerville Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fowlerville Community Schools' compliance with those requirements.

In our opinion, Fowlerville Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Fowlerville Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fowlerville Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Board of Education
Fowlerville Community Schools

September 7, 2007

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fowlerville Community Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 7, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Fowlerville Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costenaro & Ellis, P.C.

Certified Public Accountants

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2006	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2007
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
National School Lunch Program - Section 4	10.555	061950	\$ 5,759	\$	\$ 6,440	\$ 5,759	\$ 5,759	\$
National School Lunch Program - Section 4		061960	19,301		19,487	19,301	19,301	
National School Lunch Program - Section 11		071950	49,439		44,293	49,439	49,439	
National School Lunch Program - Section 11		071960	171,142		140,873	171,142	171,142	
			245,641		211,093	245,641	245,641	
National School Lunch Program - Breakfast	10.553	061970	3,399		3,261	3,399	3,399	
National School Lunch Program - Breakfast		071970	39,563		37,319	39,563	39,563	
			42,962		40,580	42,962	42,962	
Total child nutrition cluster			288,603		251,673	288,603	288,603	
National School Lunch Program - Commodities:								
Entitlement	10.550		46,121		24,249	53,350	53,350	
Bonus			754		12,109	754	754	
			46,875		36,358	54,104	54,104	
Child Care Food Program-CCFP Meals	10.558	061920	65		195	65	65	
		071920	611		269	611	611	
			676		464	676	676	
Total U.S. Department of Agriculture			336,154		288,495	343,383	343,383	

The accompanying notes are an integral part of this schedule.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2006	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2007
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title 1	84.010	051530-0506	\$ 15,320	\$ 3,775	\$ 15,320	\$ 3,775	\$	\$
		061530-0506	222,104	19,287	212,236	20,031	744	
		061530-0607	9,124			7,225	9,124	1,899
		071530-0607	269,359			222,845	232,202	9,357
			515,907	23,062	227,556	253,876	242,070	11,256
Title V LEA Allocation	84.298	060250-0506	1,297	2	1,122	177	175	
		070250-0607	651			175	651	476
			1,948	2	1,122	352	826	476
Technology literacy challenge grants	84.318	064290-0607	2,257			2,257	2,257	
		074290-0607	2,765			2,765	2,765	
			5,022			5,022	5,022	
Improving teacher quality	84.367	050520-0506	24,565	3,628	24,565	3,628		
		060520-0506	93,963	14,287	87,591	20,659	6,372	
		060520-0607	6,506			6,506	6,506	
		070520-0607	102,587			81,722	90,761	9,039
			227,621	17,915	112,156	112,515	103,639	9,039
Handicapped Preschool & School Program	84.027	070440-0607	5,000			2,310	2,310	
Passed through the Livingston Educational Service Agency: IDEA (Special Ed)	84.027	060450	1,366			1,366	1,366	

The accompanying notes are an integral part of this schedule.

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2006	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2007
<u>U.S. Department of Education (Concluded):</u>								
Passed through the Livingston Educational Service Agency:								
Transition Grant (Special Ed)	84.027A							
Project 2005-2006		060490-ts	\$ 6,000	\$ 5,982	\$ 5,982	\$ 5,982	\$	\$
Project 2006-2007		070490-ts	4,270			3,795	3,795	
			10,270	5,982	5,982	9,777	3,795	
Total Special Education Cluster			16,636	5,982	5,982	13,453	7,471	
Safe and Drug Free Schools	84.186							
Project number 2005-2006		62860	11,202	1,486	8,078	2,015	3,124	2,595
Project number 2006-2007		72860	8,780				6,884	6,884
			19,982	1,486	8,078	2,015	10,008	9,479
Vocational Education - Basic Grant to State	84.048							
Perkins 2005-2006		63520	22,420	13,553	22,420	13,553		
Perkins 2006-2007		73520	18,126			15,030	18,126	3,096
			40,546	13,553	22,420	28,583	18,126	3,096
Tech-Prep Education	84.243							
Project 2006-2007		73540	1,163			1,163	1,163	
Passed through the Howell Public Schools:								
Adult Education and Family Literacy Act 2005-2006	84.002a		6,189	6,189	6,189	6,189		
Total U.S. Department of Education			835,014	68,189	383,503	423,168	388,325	33,346
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,171,168	\$ 68,189	\$ 671,998	\$ 766,551	\$ 731,708	\$ 33,346

The accompanying notes are an integral part of this schedule.

FOWLerville COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Fowlerville Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA (#84.010) was audited as the major program, representing 33% of expenditures. The District qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 389,001
Other nonmajor governmental fund	<u>342,707</u>
Subtotal	<u><u>\$ 731,708</u></u>

6. The National School Lunch Program Commodities Entitlement award amount was \$46,121. The District received commodities totaling \$53,350. Based upon confirmation from the Michigan Department of Education, \$53,350 has been recorded.

Northern Warehousing	\$ 20,929
DJ Co-Ops	<u>32,421</u>
	<u><u>\$ 53,350</u></u>

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I

Dollar threshold used to distinguish between type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

There were no prior year audit findings for the year ended June 30, 2006.



Lamonte T. Lator
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Jeffrey C. Stevens
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September 7, 2007

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

In planning and performing our audit of the financial statements of Fowlerville Community Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Fowlerville Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 7, 2007 on the financial statements of Fowlerville Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Prior Year Comments (repeated)

Bonds

For all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Act 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

Current Year Comments

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008. The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

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September 7, 2007

Fixed Asset Accounting

The 2004 Capital Project bond construction is approaching completion. During 2007, we anticipate that a substantial amount of assets will be placed in service. A listing of all fixed assets by depreciable component, estimated useful life, and their related cost is necessary to facilitate the computation of depreciation expense, which is required for all organizations to recognize in their financial statements under generally accepted accounting principles. Fowlerville Community Schools should develop such a list to facilitate the capitalization of these assets. This listing can be incorporated into the Fixed Asset CS schedules maintained by MC&E.

This report is intended solely for the information and use of Fowlerville Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costeniser & Ellis, P.C.



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September 7, 2007

To the Fowlerville Finance Committee
Fowlerville Community Schools
Fowlerville, Michigan

We have audited the financial statements of Fowlerville Community Schools for the year ended June 30, 2007, and have issued our report thereon dated September 7, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Fowlerville Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Fowlerville Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Fowlerville Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Fowlerville Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Fowlerville Community Schools' compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fowlerville Community Schools are described in Note 1 to the financial statements. We noted no transactions entered into by Fowlerville Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout; the balance reported for compensated absences was approximately \$230,000 and accumulated severance benefits were approximately \$1,270,000. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements as a whole.

Certain amounts included in capital assets have estimated based on an outside appraisal company. Certain allocations on the statement of activities allocating revenue between instruction and support services have been used in preparing the statements.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Fowlerville Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Fowlerville Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Fowlerville Community Schools' financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fowlerville Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have discussed with management the new reporting requirements required by Statement and Auditing Standards #112.

To the Fowlerville Finance Committee
Fowlerville Community Schools
Fowlerville, Michigan

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September 7, 2007

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Finance Committee, the Board of Education, management, and federal awarding agencies and pass through entities of Fowlerville Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mamie Costeniser & Ellis, P.C.